

REVISED SURREBUTTAL TESTIMONY AND EXHIBITS OF

DANIEL F. SULLIVAN

ON BEHALF OF

THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF

DOCKET NO. 2019-290-WS

**IN RE: APPLICATION OF BLUE GRANITE WATER COMPANY FOR
APPROVAL TO ADJUST RATE SCHEDULES AND INCREASE RATES**

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND OCCUPATION.

A. My name is Daniel F. Sullivan. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina 29201. I am employed by the State of South Carolina as the Deputy Director of the Audit Department for the Office of Regulatory Staff ("ORS").

Q. DID YOU FILE DIRECT TESTIMONY AND EXHIBITS RELATED TO THIS PROCEEDING?

A. Yes. I filed direct testimony and ten (10) exhibits with the Public Service Commission of South Carolina ("Commission") on January 23, 2020.

Q. WHAT IS THE PURPOSE OF YOUR REVISED SURREBUTTAL TESTIMONY IN THIS PROCEEDING?

A. The purpose of my revised surrebuttal testimony is to respond to the rebuttal testimony filed by Blue Granite Water Company ("Company" or "BGWC") witness DeStefano on February 6, 2020 in regards to several ORS adjustments. Specifically, I focus on:

- ORS Adjustment 16a – Rate Case Expenses

- ORS Adjustment 18 – Rent
- ORS Adjustment 21e – Remove Legal Expenses – Outside Services – Other
- ORS Adjustment 34a – Unamortized Balance for Deferred Maintenance
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In addition, I updated Revised Surrebuttal Audit Exhibits DFS-1 through DFS-10 to reflect changes made by me, as well as, ORS witnesses Briseno, Parell and Sandomato.

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Q. DOES ORS AGREE TO UPDATE RATE CASE EXPENSES FOR POST-TEST YEAR COSTS RELATED TO DOCKET NOS. 2018-358-WS AND 2018-361-WS?

A. Yes. Company witness DeStefano proposes to increase rate case expenses by \$16,132 for post-test year costs related to Docket Nos. 2018-358-WS and 2018-361-WS. ORS was provided the invoices to verify the transactions on DeStefano Rebuttal Exhibit No. 2 and was able to do so with no exceptions. ORS Adjustment 16a to amortize rate case expenses in the amount of \$61,813 reflects the inclusion of these costs amortized over a three (3) year period.

Q. DOES ORS AGREE WITH THE COMPANY'S PROPOSAL TO INCREASE RENT EXPENSE BY \$18,568 FOR EMPLOYEES OF THE CHARLOTTE OFFICE?

A. No. Company witness DeStefano proposes to increase rent expense by \$18,568 for employees of the Charlotte office that the Company asserts support BGWC operations. According to witness DeStefano, allocation of the Charlotte office rent expense was not included by the Company in its application out of simplicity.

ORS's rent expense adjustment of \$84,839 does reflect a reduction of \$11,019, to correctly allocate lease expense for two (2) employees in the Greenville office that are

1 assigned to the Atlantic Division, whose duties are only 34.94% applicable to BGWC.
2 However, the Company did not include amounts for the Charlotte office in its application
3 as noted previously. Company witness DeStefano's rebuttal testimony is the first time the
4 Company has asserted that employees of the Charlotte office perform services for BGWC.
5 Amounts and calculations on DeStefano Rebuttal Exhibit No. 3 have not been analyzed or
6 verified by ORS due to time constraints created by the Company failing to propose this
7 allocation through its application. To verify the calculations on DeStefano Rebuttal Exhibit
8 No. 3 ORS would need the time to ask additional questions and send discovery requests
9 for information to the Company. The Company failed to include the Charlotte office
10 allocations in its application and failed to provide them to ORS with sufficient time to
11 analyze and audit the expenses. ORS established cut-off dates by which the Company was
12 obligated to give ORS data on items for which the Company seeks recovery. By providing
13 this data after the cut-off date, the Company has prevented ORS from conducting its usual
14 audit on these expenses. As a result, it would be unreasonable to allow the Company to
15 recover expenses associated with the Charlotte office allocation.

16 In addition, if allocation of the Charlotte office rent expense was not included by
17 the Company due to simplicity, and the entirety of the Greenville office rent expense was
18 allocated to BGWC due to simplicity, then one may ask whether the entire Charlotte office
19 rent expense was allocated to Carolina Water Service of North Carolina in its most recent
20 rate case Docket W-354 Sub 364. If that is true, allocating rent expense for the Charlotte
21 office to BGWC would enable Utilities Inc. to recoup more than 100% of the actual rent
22 expense for that office from its customers.

1 In summary, ORS is not able to fully analyze or verify that rent expense for the
2 Charlotte office should be allocated to BGWC since the Company did not propose an
3 adjustment in its application and ORS was not afforded the time necessary to fully review
4 the Charlotte office for inclusion in this docket. Therefore, ORS does not agree to increase
5 rent expense by \$18,568.

6 **Q. DOES ORS AGREE WITH THE COMPANY TO INCLUDE \$7,203 OF POST-TEST**
7 **YEAR LEGAL EXPENSES FOR ACTIVITY RELATED TO THE TEST YEAR?**

8 **A.** Yes. Company witness DeStefano proposes to increase legal expenses by \$7,203
9 for post-test year costs that were incurred during the test year. ORS was provided the
10 invoices to verify the transactions on DeStefano Rebuttal Exhibit No. 2 and was able to do
11 so with no exceptions. ORS Adjustment 21e to remove legal expenses from outside services
12 in the amount of (\$15,008) reflects the inclusion of these costs.

13 **Q. DOES ORS AGREE WITH THE COMPANY TO INCLUDE THE UNAMORTIZED**
14 **BALANCE OF THE DEFERRED TANK INSPECTIONS IN RATE BASE?**

15 **A.** No. Company witness DeStefano believes it is appropriate to include the
16 unamortized balance of the hydrotank inspections in rate base. Mr. DeStefano's rationale
17 is that the Company funded the costs upfront for a benefit derived over multiple years so
18 therefore the cost of inspections is akin to a prepaid item, and analogous to a traditional
19 capital investment.

20 ORS agrees the Company incurred the costs of the hydrotank inspections and should
21 receive recovery of those expenses. ORS recognizes this by the inclusion of 1/5th of those
22 costs in the calculation of ORS Adjustment 9a, which is consistent with the adjustment

1 proposed by the Company. ORS does not agree that the hydrotank inspections should be
2 treated as a prepaid item or a traditional capital investment, for several reasons.

3 First, the hydrotank inspections are maintenance expenses and not capital
4 investments. Capital investments are traditionally included in rate base whereas maintenance
5 expenses are not.

6 Second, ORS's exclusion from rate base of the unamortized balance for these
7 maintenance expenses is consistent with the treatment by the Commission in prior dockets
8 as referenced in my direct testimony. Commission Order No. 2015-876, in Docket No. 2015-
9 199-WS, the Commission approved ORS's proposed Adjustment 16 which removed
10 deferred charges of \$274,267 from rate base. Those charges consisted of expenses for
11 litigation and deferred expenses for tank inspections. ORS proposed recovery of those
12 charges through an expense amortization and did not propose to include a return on those
13 charges. The Company also agreed to ORS's treatment of those tank inspections in that
14 docket by agreeing to a settlement amongst the parties. My direct testimony also references
15 Docket No. 2017-292-WS, in which the Commission ordered the deferred maintenance
16 expenses be excluded from the calculation of rate base, and Docket No. 2018-257-WS for
17 Kiawah Island Utility, Inc. in which the Commission allowed the inclusion of the
18 amortization of tank painting over five (5) years but excluded the unamortized balance from
19 rate base.

20 Third, the amortization of the hydrotank inspections also serves as a normalizing
21 adjustment. Including the entire costs of the tank inspections in expenses for the
22 determination of the revenue requirement in this docket would not be fair to customers as the
23 costs for the tank inspections will not be incurred on a yearly basis. Nor would it be fair to

1 the Company to exclude all the costs associated with the tank inspections although they will
2 not be incurred every year. Therefore, the reasonable approach is to allow the Company
3 recovery of the costs associated with the hydrotank inspections over a five (5) year period
4 since they are performed every five (5) years based on the rebuttal testimony of Company
5 witness DeStefano. This is the proper treatment to determine the revenue requirement.
6 Although the Company does not recover the entire costs of the hydrotank inspections in one
7 (1) year, they do recover the entire costs of the inspections over a five (5) year period. Thus,
8 it is not necessary to include the unamortized balance of the hydrotank inspections in rate
9 base for the Company to recover the entire costs of the inspections.

10 **Q. DID ORS UPDATE ANY OTHER ADJUSTMENTS AS PART OF REVISED**
11 **SURREBUTTAL TESTIMONY?**

12 **A.** Yes. ORS updated adjustments affected by the changes discussed by ORS
13 witnesses Briseno, ~~Parrell~~ and Sandonato in their respective revised surrebuttal testimonies.
14 ORS also updated all fall-out adjustments based on the updates made by ORS as a result
15 of the Company's rebuttal. These adjustments include gross receipts taxes (ORS Adj. 26b),
16 state (ORS Adj. 28) and federal (ORS Adj. 27) income taxes for accounting and pro forma
17 adjustments. ORS also updated revenues (ORS Adjs. 40, 41 and 42), uncollectible accounts
18 (ORS Adj. 43), gross receipts taxes (ORS Adj. 44), state (ORS Adj. 46) and federal (ORS
19 Adj. 45) income taxes, and customer growth (ORS Adj. 47) for ORS's proposed
20 adjustments. In addition, ORS also updated Revised Surrebuttal Audit Exhibit DFS-10
21 that details the operating experience, rate base and rate of return using the Company's
22 proposed rates.

1 **Q. PLEASE IDENTIFY THE EXHIBITS ATTACHED TO YOUR REVISED**
2 **SURREBUTTAL TESTIMONY.**

3 **A.** I have attached the following exhibits to my revised surrebuttal testimony to reflect
4 the updates made by ORS:

- 5 • Revised Surrebuttal Audit Exhibit DFS-1: Operating Experience, Rate Base and Rate
6 of Return for Combined Operations – Water and Sewer Service Territory 1 and 2
- 7 • Revised Surrebuttal Audit Exhibit DFS-2: Operating Experience, Rate Base and Rate
8 of Return for Water Service Territory 1
- 9 • Revised Surrebuttal Audit Exhibit DFS-3: Operating Experience, Rate Base and Rate
10 of Return for Water Service Territory 2
- 11 • Revised Surrebuttal Audit Exhibit DFS-4: Operating Experience, Rate Base and Rate
12 of Return for Sewer Service Territory 1 and 2
- 13 • Revised Surrebuttal Audit Exhibit DFS-5: Explanation of Accounting and Pro Forma
14 Adjustments
- 15 • Revised Surrebuttal Audit Exhibit DFS-6: Depreciation and Amortization Expense
16 Adjustments
- 17 • Revised Surrebuttal Audit Exhibit DFS-7: Computation of Income Taxes
- 18 • Revised Surrebuttal Audit Exhibit DFS-8: Cash Working Capital Allowance
- 19 • Revised Surrebuttal Audit Exhibit DFS-9: Return on Equity
- 20 • Revised Surrebuttal Audit Exhibit DFS-10: Operating Experience, Rate Base and Rate
21 of Return for Combined Operations, Water and Sewer Service Territory 1 and 2
22 Reflecting the Company's Proposed Increase

1 These exhibits were either prepared by me or were prepared under my direction and
2 supervision in compliance with recognized accounting and regulatory procedures for water
3 and wastewater utility rate cases and previous Commission Orders. These exhibits show
4 various aspects of BGWC's operations and financial position.

5 **Q. WILL YOU UPDATE YOUR REVISED SURREBUTTAL TESTIMONY BASED**
6 **ON INFORMATION THAT BECOMES AVAILABLE?**

7 **A.** Yes. ORS fully reserves the right to revise its recommendations via supplemental
8 testimony should new information not previously provided by the Company, or other
9 sources, becomes available.

10 **Q. DOES THIS CONCLUDE YOUR REVISED SURREBUTTAL TESTIMONY?**

11 **A.** Yes, it does.